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The Soviet Economy in 1983 and the Outlook for 1984

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An Intelligence Assessment

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The Soviet Economy in 1983 and the Outlook for 1984

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An Intelligence Assessment

This assessment was prepared by [] of
the Office of Soviet Analysis with contributions by the
Soviet Economy Division and the Econometric
Analysis Division. Comments and queries are
welcome and may be directed to the Chief, Soviet
Economy Division, SOVA, []

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**The Soviet Economy in 1983
and the Outlook for 1984**

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Summary

*Information available
as of 1 May 1984
was used in this report.*

Soviet economic growth accelerated slightly last year, with the rate of increase in GNP reaching about 3 percent. Industrial output was up 3.5 percent—a percentage point above the previous year. While most major industrial branches performed well, problems continued in some industries. Coal production, for example, declined again in 1983, and growth in the key machinery sector rose only slightly—a serious disappointment to Soviet planners. Outside of industry, there were some impressive gains. Freight turnover rose sharply, particularly in rail transport. In agriculture, the grain and sugar beet harvests were up substantially, and production of meat and milk reached record highs.

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The improved performance was the result of several factors:

- Better weather.
- Substantial additions of new production capacity.

Policies and personnel changes probably also played a role, particularly Yuriy Andropov's discipline campaign.

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The economic goals included in the 1984 Plan imply an intent to sustain GNP growth at about the same rate achieved in 1983. The target for industrial output exceeds our estimate of actual growth attained in 1983. These targets represent a significant economic challenge, despite the gains last year:

- Further improvement in the weather will be needed to keep agricultural growth strong. Average weather this year after the good conditions in 1982 and 1983 would provide little gain in harvests of key crops.
- Additions of new production capacity, an area where Soviet performance has traditionally varied, will have to remain high.
- Labor discipline will have to improve further this year, when pressures to slip back to the less stringent Brezhnev approach are likely to grow.

The 1984 Economic Plan and accompanying speeches, as well as comments by Konstantin Chernenko since he assumed power, suggest no compelling new actions will be taken to encourage achievement of these goals. The plan simply raises performance standards—productivity goals are higher and conservation measures more stringent—and once again calls for greater reliance on “scientific and technological” progress. No significant changes in economic policy are prescribed nor does the plan contain any new initiatives for altering the way the economy is run.

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We do not know what approach to the economy Chernenko might take in the longer term. Thus far, he has stressed continuity in economic policy, endorsing the discipline campaign and other, more modest programs emphasized by Andropov. The General Secretary is not in a position to introduce major changes soon; he almost certainly will not be able to affect the 1984 Plan, which is already under way. Chernenko rules over a divided leadership and faces many obstacles before he can consolidate his power. Most important, however, nothing in his background or pronouncements indicates that he is inclined to make bold changes in the Soviet centralized planning and management system. 

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Thus, the improved economic performance last year must have been welcome news to Chernenko. The bigger increment to GNP achieved in 1983, particularly if it can be repeated or improved upon this year, will enable Chernenko to consolidate his power base and will make it easier for the new leadership to avoid radical changes in either resource allocations or institutional reform. At least for the present, Chernenko may be able to appease both the marshals and the consumers. 

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The Soviet Economy in 1983 and the Outlook for 1984

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Introduction

This assessment reviews the performance of the Soviet economy in 1983, analyzes Moscow's plans and implied economic policies for 1984, and discusses whether targets for 1984 are realistic. The analysis is based largely on economic statistics released by the Soviets on performance in 1983 and on information about the 1984 plan contained in published speeches of the late General Secretary Yuriy Andropov and other high-level officials given at the party and government meetings in December 1983, and more recently the speeches of Andropov's successor, Konstantin Chernenko.¹

1983 Results

Data released by the Soviet Central Statistical Administration indicate that economic growth accelerated slightly in 1983 as it had in 1982. Our calculations imply a growth rate for GNP of about 3 percent,² compared with 2.6 percent in 1982 and 2.1 percent in 1981. In 1983, growth speeded up in the nonagricultural sectors of the economy but slowed in the farm sector. In 1982, the opposite was true (see table 1):

¹ The Soviets rarely falsify economic data. Instead, they omit, reclassify, redefine, and conceal data that they believe would violate national security or prove embarrassing. Although official economic data are flawed to some extent by padding and intentional distortions, such manipulations occur largely at the local level;

flagrant, large-scale violations probably are held to a minimum because of the ability to cross-check data and the need for fairly accurate and reliable statistics by the planning apparatus.

countrywide agricultural data probably are fairly reliable. Our research shows that Soviet data generally follow the same trends as Western reconstructions based on Soviet price and quantity statistics.

² The preliminary nature of the available data precludes a precise calculation of GNP for 1983.

Table 1 *Average annual percent change*
USSR: Growth of Gross National Product by Sector of Origin, Selected Periods

	1976-80	1981	1982	Preliminary 1983
Gross national product ^a	2.6	2.1	2.6	3.0
Agriculture ^b	1.2	0.5	6.1	3.7
Nonagricultural sectors	3.0	2.5	1.9	3.0
Industry	3.2	2.4	2.3	3.5
Construction	1.9	2.1	0.8	3.5
Transportation	3.5	3.8	0.9	2.7
Communications	5.8	5.0	3.2	3.2
Trade	2.9	2.4	0.7	2.2
Services	2.8	2.5	2.2	2.3
Other	2.6	2.1	2.6	3.0

^a Calculated at factor cost.

^b Excludes intra-agricultural use of farm products but does not make an adjustment for purchases by agriculture from other sectors. Value added in agriculture grew at an average annual rate of 0.5 percent during 1976-80, -0.3 percent in 1981, 7.1 percent in 1982, and 2.8 percent in 1983.

Industrial production increased by roughly 3.5 percent, a substantial improvement over the 2.3-percent rise the previous year. Performance was especially improved in the chemical, food, construction material, and ferrous metallurgy sectors. Machinery output growth, however, picked up little, if at all. Performance in the critical energy sector was mixed. After three decades of substantial annual growth, oil production was up only slightly more than 0.5 percent last year, reaching 12.3 million barrels per day. While natural gas output grew rapidly—by about 7 percent—raw coal output fell to 716 million tons, 2 million tons below that of 1982 (see table 2).

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Confidential**Table 2** *Average annual percent change*
USSR: Industrial Production^a

	1976-80	1981	1982	Preliminary 1983
Industrial production	3.2	2.4	2.3	3.5
Industrial materials	2.3	1.9	1.5	3.3
Ferrous metals	0.9	-0.2	0.4	4.0
Rolled steel	0.8	-0.1	-0.9	4.0
Steel pipe	2.6	0.5	-0.4	4.0
Nonferrous metals	2.3	1.3	1.5	3.0
Primary energy ^{b c}	4.0	2.4	2.6	NA
Coal ^c	0.4	-1.7	2.0	-0.3
Oil ^c	4.2	0.9	0.6	0.6
Natural gas ^c	8.5	6.9	7.6	7.1
Electric power	4.5	2.5	3.1	3.6
Chemicals	3.6	4.0	1.8	6.0
Wood, pulp, and paper	-0.6	1.8	0.4	3.3
Construction materials	1.1	1.3	0.0	3.0
Total machinery	5.0	3.2	3.8	4.0
Consumer nondurables	1.9	2.0	1.3	3.3
Food	1.4	2.0	2.8	4.7
Soft goods	2.7	1.9	-0.5	1.0

^a CIA estimates except as noted.^b Includes oil, natural gas, coal, hydroelectricity and nuclear electricity, peat, oil shale, fuelwood, and other renewable energy sources.^c Calculated from official Soviet data.

Domestic farm output rose by nearly 4 percent and reached a new all-time high.³ The livestock sector performed particularly well. Both meat and milk output reached new records. Livestock herds also surged to record levels, reflecting both the good harvest in 1983 and the strong emphasis given by the leadership to the building of herds (see table 3) []

³ It should be noted that our calculations of growth in farm output are subject to considerable uncertainty, largely because the Soviets have not published grain harvest statistics since 1980 and in 1983 failed to disclose the production of sunflower seed—the source of three-quarters of domestic vegetable oil production. However, our estimates of the size of the grain harvests have been aided by an unofficial Soviet report of a 158-million-ton crop in 1981 and Chernenko's statement to the Central Committee in March that the 1983 grain crop exceeded 190 million tons. We also recently increased our estimate for 1982 from 165 million tons to 180 million tons because of additional information received from Soviet press reports on yields and state purchases last year. []

Table 3 *Million tons*
USSR: Production of Selected (except as noted)
Farm Products

	1976-80 Average Annual	1981	1982	1983
Crops				
Grain	205.0	158.0 ^a	180.0 ^b	195.0 ^b
Cotton	8.9	9.6	9.3	9.2
Sugar beets	89.0	61.0	72.0	82.0
Sunflower seed	5.3	4.7	5.3	5.3 ^b
Potatoes	83.0	72.0	78.0	83.0
Vegetables	26.0	27.0	30.0	29.0
Livestock products				
Meat	14.8	15.2	15.4	16.0
Milk	92.8	88.9	91.0	96.5
Eggs (billion units)	63.1	70.9	72.4	74.5
Livestock herds ^c (1970=100)	119.4	122.2	124.3	126.7

^a Unofficial estimate from a Soviet lecturer. The Soviets stopped publishing data on the size of the grain harvest after 1980.^b CIA estimate.^c End-of-year data. Livestock numbers are weighted by 1970 average realized prices.

The transportation picture also was better. Total freight turnover increased by 5 percent with nearly all modes of transport showing improvement.⁴ Most significant was the turnaround in the performance of the railroads—the backbone of the Soviet transportation network.⁵ Rail freight turnover climbed to 3.6 trillion ton-kilometers, an increase of 4 percent over 1982; it had fallen by over 1 percent the previous year (see table 4). []

⁴ Freight turnover, expressed in ton-kilometers, measures the volume of work performed by the various transport modes. It is defined as the amount of freight carried, expressed in tons, times the distance carried, expressed in kilometers. []

⁵ Railroads account for about one-half of total freight turnover in the USSR. []

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Table 4
Freight Turnover by Mode
of Transportation*annual growth
in percent*

	1981	1982	Preliminary 1983
Total	4	1	5
Railroads	2	-1	4
Inland waterways	4	3	4
Trucking	6	1	3
Oil pipeline	4	3	4
Gas pipeline	14	13	12

In foreign trade, we estimate that the value of Soviet imports grew about 5 percent and exports approximately 7 percent in 1983. Moscow's hard currency balance of payments is estimated to have remained at near the 1982 level and the net hard currency debt to have leveled off at about \$10 billion.

The somewhat improved economic performance owes much to the return of better weather in the USSR last year, which helped boost farm production. A relatively benign winter and spring—temperatures were warmer than normal—benefited nonagricultural sectors as well. For instance, more favorable winter and spring weather conditions bolstered industrial production by permitting some rebuilding of stocks of fuels and other inputs less in demand when the weather is mild. The weather also helped ease transportation snarls, which, in turn, relieved industrial bottlenecks.

Another factor that contributed to improved performance was the substantial addition to new productive capacity in the last two years. New plant and equipment brought onstream increased by a hefty 5.2 percent in 1982 and by another 5 percent in 1983, up sharply from the rates at which gross capacity had increased since the late 1970s.⁶

⁶ Figures released at the end of January in the Central Statistical Administration's report on the economy's 1983 performance imply an increase of 4.7 percent. But another figure at about the same time implies a 6-percent rise. See N. Baybakov, "Uverennaya postup' ekonomiki SSSR," *Planovoye khozyaystvo* (February 1984), pp. 1-15. Data included in the February issue of *Vesnik statistiki* imply a 5-percent increase in 1983.

Policy and personnel changes probably also played a part in the more rapid growth. Andropov's discipline campaign appears to have compelled laborers to work, if not harder, at least longer hours. Changes in managerial personnel appear to have helped improve efficiency. Management changes may have been a particularly significant factor in the turnaround in rail transportation, a sector that seems to have suffered from especially lax leadership during the Brezhnev era. For example, Geydar Aliyev, Politburo member and First Deputy Chairman of the USSR Council of Ministers—known for his toughness as party boss in Azerbaijan—was given the special responsibility of overseeing the railroads. A new Minister of the Railways, Nikolay Konarev, also was appointed. He tightened discipline and apparently obtained dividends from several new programs—such as enlisting industrial enterprises and other shippers in the repair of damaged freight cars.

The Economy in 1984

Yuriy Andropov's principal objective during his stewardship was to overcome the economic malaise that had characterized the waning years of Leonid Brezhnev's rule. During his 15 months in office, he often voiced concern over the state of the economy. The US Embassy reported late last year, for example, that Andropov had sent a letter to all Soviet party organizations stating that the nation was "in danger" and underscoring the necessity of reviving and reinvigorating the economy. He warned that the time had passed when a "formalistic" (that is, cavalier) approach toward changes mandated from the center would be tolerated and stated that those who did not support these changes would be dealt with ruthlessly.

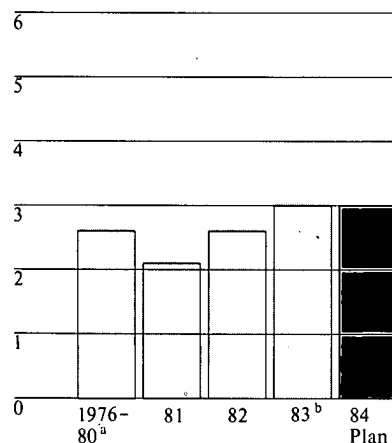
Despite this, Andropov deviated from Brezhnev's policies only in his efforts to instill more discipline. The economic policies implicit in the 1983 Plan, for example, mostly put new emphasis on existing programs. The plan data for 1984 and other information in the December leadership speeches, including Chernenko's public statements, indicate that there will be

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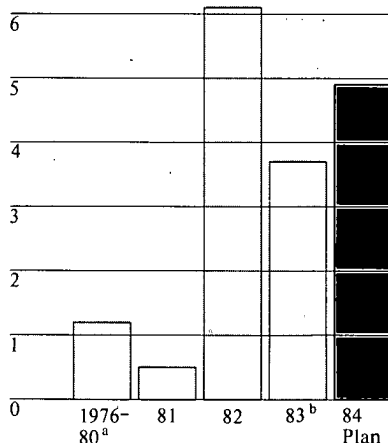
Figure 1
USSR: Selected Indicators of Economic Performance

Percentage change

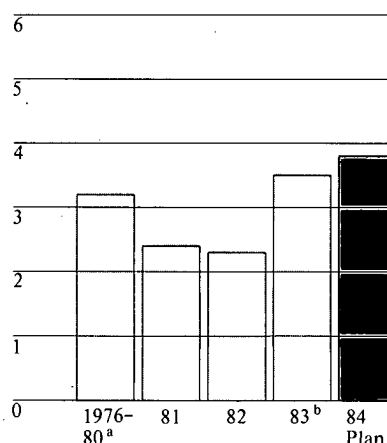
GNP
 1981-85 Plan: 4.0 percent^a



Agriculture
 1981-85 Plan: 5.0 percent^a



Industry
 1981-85 Plan: 4.7 percent^a

^a Average annual percentage change.^b Preliminary.

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little, if any, change in economic policy again this year. In particular, the recent Supreme Soviet election speeches, coming soon after Andropov's death and Chernenko's selection as party leader, provide a unique opportunity for making some inferences about the current power and policy alignments within the Kremlin. The speeches suggest that no dramatic policy changes are likely from the new Soviet leadership in the near term.

The 1984 Plan

This year's economic goals—announced at the Supreme Soviet meetings in December—imply an intent to continue in 1984 the rate of economic growth achieved in 1983. Overall, however, the 1984 Plan is conservative. It points to no significant changes in resource allocation policy and contains no new initiatives for altering the way the economy is run. Nor is the 1984 Plan likely to be significantly affected by Andropov's death. Chernenko is not in a position to

introduce major changes this year. Furthermore, he has not indicated any disposition to do so. He has stressed continuity in economic policy, endorsing the discipline campaign and the other, more modest programs pushed by Andropov.

It is apparent from the 1984 goals that the planners do not intend to put the economy back on the original growth track slated for 1981-85. Projected growth rates for major sectors of the economy not only remain below what would be required to reach 1985 goals, but continue to fall short of the average annual rates of increase implied by the original Five-Year Plan. In short, Moscow has tacitly abandoned its original 1981-85 targets for economic growth (see table 5).

Soviet plans imply a GNP growth rate of about 3 percent, roughly equal to what was achieved in 1983. Industrial output is targeted to increase by 3.8 percent, roughly the same as our estimate of actual

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Table 5
USSR: The 1984 Plan in Perspective

*Average annual
percent change*

	Plan 1981-85	1981-83 ^a	Required 1984-85 ^b	Plan 1984
Industry	4.7	2.8	7.6	3.8
Electric power	3.7	3.1	4.8	3.5
Coal	1.6	0.0	4.0	1.0
Oil	0.9	0.7	1.1	1.3
Gas	7.7	7.2	8.4	7.8
Total machinery	7.0	3.6	12.1	5.8
Soft goods	3.5	0.9	7.4	3.7
Agriculture ^c	5.0	3.4	7.4	4.9

^a Including preliminary 1983 figures.

^b Average annual rate of growth required during 1984-85 to reach the goal set for the 11th Five-Year Plan period.

^c Gross value of output with the exception of 1981-83. The latter measure excludes intra-agricultural use of farm products.

growth in 1983. Output of the important machinery sector (which manufactures producer durables, consumer durables, and military hardware) is planned to increase by 5.8 percent, well above the 4-percent rate of growth achieved last year and a percentage point higher than the 1983 machinery output target. However, output of finished steel, a critical input to the machinery industries, is slated to rise by only 1.3 percent. This small increase suggests that, unless there is a surge in steel imports, the higher machinery output goal is not likely to be reached. The poor performance of the machinery industry in recent years is the major reason why Moscow's investment strategy—modernizing the economy through renovation, principally with technologically advanced machinery—has not worked thus far in the 11th Five-Year Plan period.

In the energy sector, oil and natural gas are targeted for roughly 1-percent and 8-percent rates of growth, respectively. Both goals are probably overambitious—oil output grew by 0.6 percent in 1983, and this year's goal implies increases at West Siberian oilfields that probably cannot be achieved. Annual increases in gas production of 7 percent have been more typical in

recent years. The 723-million-ton goal for coal production is the same as in 1983; however, only 716 million tons were actually mined last year.

Domestic farm output is planned to rise by nearly 5 percent, following a 3.7-percent gain in 1983. Warmer temperatures and generally adequate soil moisture to date bode well for both fall-sown grains and for spring planting. The mild winter this year also holds out the prospects of a second consecutive record performance by the livestock sector in 1984. But favorable weather must continue throughout the growing season if the overall agricultural output target is to be met this year.

Plans for crop production generally fall close to or within range of the targets in the 1981-85 Plan. For example, a grain crop of nearly 240 million tons is targeted for this year; the 1981-85 Plan called for grain output to average 238-243 million tons a year. Meat production is planned to reach 16.8 million tons, a goal well within reach given the record herd numbers on hand and assuming the Soviets have relatively good grain and other feed crops this year. Nonetheless, Moscow will need to import reduced but still substantial quantities of meat—about 400,000 tons compared with an estimated 800,000 tons in 1983—just to maintain per capita meat availability at the 1983 level.

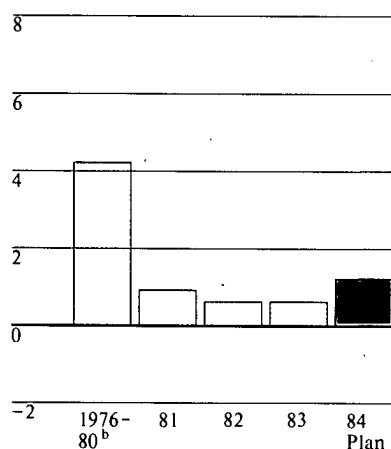
Support for the Food Program, begun under the Brezhnev regime, apparently is to continue.⁸ Capital investment in the agro-industrial complex is to exceed one-third of total capital investment. A large increase in investment in industries that directly support agriculture is planned. For example, investment in mineral fertilizer facilities is to increase by 24 percent, and the construction of storage and refrigeration facilities is to rise by 13 percent. The Soviets are pushing especially hard to bolster their inventory of farm machinery. This year's plan calls for a 34-percent jump in investment in such industries.

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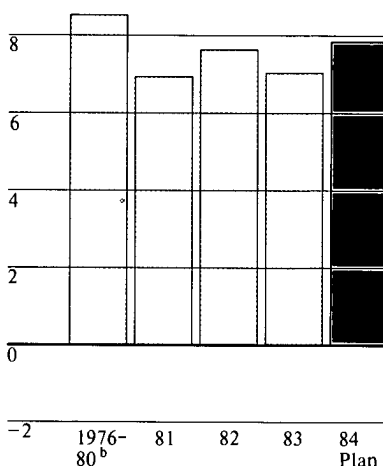
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Figure 2
USSR: Fuels Production

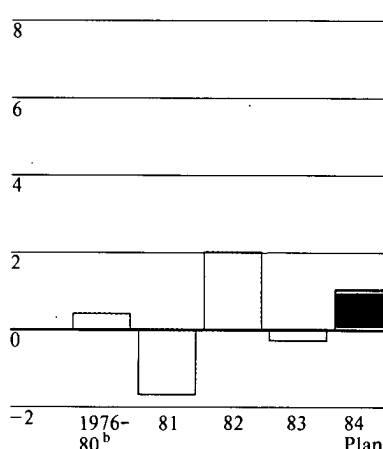
Percentage change

Oil^a

Natural Gas



Coal

^a Including natural gas liquids.^b Average annual percentage change

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The plan calls for growth in rail freight turnover to slip to less than 2 percent from 4 percent in 1983. The projected decline in growth in rail freight turnover this year, despite plans to maintain the 1983 rate of increase in GNP, probably reflects Soviet intentions to markedly improve efficiency of the railroads by cutting down "irrational" freight hauls, using new managerial and worker incentives, and stepping up the pace of modernization.⁹ The low target also reflects continuing efforts to raise the share of freight carried by other modes of transport, particularly pipelines and trucks.

The plan for foreign trade calls for only a slight increase in total trade turnover but for the share of trade with Communist countries to increase dramatically. In his annual report to the Supreme Soviet, Gosplan Chairman Nikolay Baybakov indicated that

⁹ According to Soviet estimates, for instance, the volume of rail freight turnover in 1983 was inflated by as much as 7 percent because of such wasteful practices as excessive crosshauling of freight—hauling coal from one area to another, for example, at the same time that the same commodity is being transported on another train in the opposite direction.

trade with Communist countries would increase 10 percent—twice the annual rate of the past two years—and would reach more than three-fifths of total Soviet trade turnover. He implied that the growth of trade with non-Communist countries would drop about 10 percent.

This is an even more ambitious plan for reducing trade with the West than that of last year. Thus far in the 1981-85 planning period, however, the Soviets have not made good on their plans to trade less with the West and more with Communist countries. Growth in trade turnover with non-Communist countries has outpaced that with the Communist Bloc in 1981, 1982, and, according to our preliminary estimates, in 1983 as well.

Aside from the desire to reduce the reliance of CEMA countries on the West, an important factor in Moscow's trade policy is the longstanding desire to limit borrowing from the West. The regime also may be

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Table 6
USSR: Volume Growth in
Foreign Trade^a

Percent

	1981	1982	Preliminary 1983 ^b	1984 Plan ^c	1981-85 Plan ^d
Total trade	4.2	8.2	3	1	4.0
With Communist countries	2.3	5.3	3	10	5.6
With non- Communist countries	7.8	10.8	4	-10	2.3

^a Calculated from Soviet data expressed in constant prices.

^b Estimated, based on results for first three quarters of the year.

^c It is unclear whether the 1984 Plan data are expressed in current or constant prices.

^d Average annual rate of increase.

anticipating some decline in its hard currency earnings capacity this year (perhaps because it expects reduced earnings from exports of oil and arms).

Moscow has been pressuring its Warsaw Pact allies to reduce their bilateral trade deficits with the USSR and to boost their exports, especially those of higher quality goods, to the Soviet Union. At the annual meeting of CEMA premiers in October 1983, Premier Nikolay Tikhonov expressed the view that although the Soviet Union recognizes the interests of the CEMA countries in receiving fuel and raw materials from the USSR, these needs cannot always be fully met. He bluntly stated that deliveries will depend on the ability of East European countries to supply the Soviet Union with the high-quality goods it needs for its own economy.

But, the East Europeans—facing critical economic and financial problems of their own—have been neither willing nor able to assist Moscow much in providing substitutes for Western imports of machinery and manufactured consumer goods. Nonetheless, because of the relative calm in Eastern Europe, the Soviets may be more willing now than in the past to scale back deliveries of raw materials to their allies. Martial law, lifted in the fall of 1983, appears to have succeeded in controlling tensions in Poland. There

has, in fact, been little overt discontent in any of the East European countries, despite harder economic times.

Meeting the Targets

To meet the 1984 targets, Andropov's December speech (read to the Party Plenum) listed several general requirements—higher productivity, more input savings, and “a decisive turn toward scientific and technical progress”—but offered little on how these requirements are to be met. Previous calls for stricter discipline and increased efficiency for workers and managers were repeated. Chernenko's speech to the Central Committee on 13 February also was devoid of any specific guidance. Both Chernenko and Andropov called for growth in labor productivity to exceed by 1 percent the targets in the plan itself. They likewise urged an additional cut of 0.5 percent in production costs beyond the cost reduction targets in the plan. A high-level Soviet official recently told the US Embassy that the new requirements were mandatory and would be strictly and uniformly enforced. Still, the likely purpose in tacking on these additional requirements was to dramatize the urgent need for greater efficiency throughout the economy.

The plan also lays down tougher conservation goals for energy, metals, and raw materials. The Soviets have been calling for stricter conservation measures for some time, but particularly since the July 1979 economic reforms. There is no reason to believe this latest push will succeed. Enterprise managers still concern themselves foremost with meeting output targets and only secondarily with reducing production costs.

As in the past, Andropov's speech urged more rapid scientific and technological advances. The tone of the remarks, however, suggests that a more serious effort will be made to increase the payoff from research work and to spur the introduction of new technology into the economy. The late General Secretary's speech criticized a number of machinery industries, in particular, for failing to produce more technologically advanced equipment. However, nothing in the speech

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suggested an intent to make changes in the planning and incentive system that would encourage innovation—a necessary condition for sustained higher rates of economic growth over the long run. []

Resource Allocation

The 1984 Plan implies that investment and consumption are slated to grow at nearly equal rates—about 4 percent—slightly higher than the planned 3-percent rise implied for GNP.¹⁰ The new regime has not yet had time to affect Soviet plans; any major change contemplated in resource allocations would probably not occur until the 1986-90 Plan had been worked out. Although Chernenko has advocated improved consumer welfare in the past, it is far from clear that he will push for a larger share of resources to be allocated to consumption. As usual, very little information was released on the allocation of resources to defense. []

Investment. The plan specifically calls for new fixed investment to increase by 3.9 percent this year. Since investment has run well ahead of plan each year since the 11th Five-Year Plan began, the actual increase in investment in 1984 may be greater. New fixed investment has been absorbing a slightly rising share of GNP each year, growing at an average annual rate of about 4 percent during the first three years of the 11th Five-Year Plan period. []

The 1981-85 Plan called for slower growth in investment than in overall economic growth. The rationale was that lagging investment growth would be compensated by rising capital productivity through more efficient use of plant and equipment and speedier technological progress. The more rapid increase in investment than in GNP suggests that (1) this strategy was abandoned or ignored, and the premise on which it was based was rejected from the very outset and/or (2) the planners have not been able to control investment from the center, particularly new construction, which has been increasing faster than planned. Indeed, if one assumes that the goal of 3.9 percent for

¹⁰ These data do not necessarily imply, although it certainly cannot be ruled out, that defense is planned to grow less rapidly than GNP. First, the growth rates implied for GNP and consumption are based on incomplete Soviet plan data and thus subject to some uncertainty. In addition, we have no information on the planned growth in expenditures on other components of GNP that must be taken into account—inventories, net exports, administrative matters, and other miscellaneous items. []

Table 7
USSR: Increases in Consumption
and New Fixed Investment

*Average annual
percent change*

	1971-75	1976-80	1981	1982	Preliminary 1983	Plan 1984
Consumption	3.7	3.1	2.8	0.8	2.3	4.0
New fixed investment	7.0	3.4	3.8	3.5	4.5	3.9

new fixed investment for 1984 is reached and that new fixed investment grows by 4 percent in 1985—the 1981-84 average—investment for the first half of the decade would increase roughly 20 percent compared with 1976-80, almost double the 10.4 percent growth originally planned. Whether investment growth should be slowed down or speeded up is a subject of continuing debate in the USSR. []

Although few actual figures have been released by the Soviets, no substantial changes appear to have been made in the allocation of investment resources. Finance Minister Vasilii Garbuzov stated that capital investment will go “in the first place” for projects in the energy and the “agro-industrial complex,” metal-lurgy, machinery, chemicals, transport, and consumer goods. With the exception of consumer goods and chemicals, these sectors are the same ones singled out for priority attention in the 1981-85 Plan. Investment in energy is to grow by 11 percent this year, in line with the five-year increase of 50 percent originally targeted for energy. []

Even though Garbuzov singled out ferrous metals, machinery, and transportation, investment in these areas has been less than adequate thus far in the 11th Five-Year Plan period, given the importance and needs of these sectors. Investment in the machinery sector, for example, increased only 4.2 percent and 0.8 percent in 1981 and 1982, respectively; investment in railroads rose about 5 percent in 1981 but not at all in 1982. With energy investment slated to grow rapidly

in 1984, investment allocations to other sectors also important to economic growth cannot increase much, if at all. []

The cornerstone of Moscow's investment policy in 1984 is the continued emphasis on modernization of plant and equipment.¹¹ This is to be accomplished primarily by stepping up the pace at which machinery is being replaced with technologically advanced equipment. The share of machinery and equipment in total investment is to reach 42 percent—the same share as planned for last year. Evidently, the rate at which the modernization strategy was implemented in 1983 lagged plans. Efforts to reduce new construction starts are to be further intensified by permitting new projects only “in exceptional cases.” The commissioning of new capacity is to increase substantially—by almost 6 percent—in part by reducing the level of unfinished construction by about 3 percent.¹² []

Consumption. The official Soviet data imply an increase in consumption in 1984 of about 4 percent:

- Retail sales are planned to rise by 5.4 percent (in current prices). If we assume a rate of inflation of 1 to 1.5 percent, the increase in sales in real terms would be about 4 percent.
- Real per capita income (a measure of consumption of goods and some services) is to increase by 3.5 percent. If we assume a population growth of slightly under 1 percent, the planned rise in real income would be about 4.5 percent.

Except for 1981, consumption has grown at a slower rate than GNP thus far in the current five-year plan. []

During its brief tenure, the Andropov regime demonstrated concern for the welfare of the population by calling for improvements in the level of services and in the supply of consumer goods provided the population and by giving a high priority to the Food Program.

¹¹ This does not represent a change from the investment strategy originally laid down in the 11th Five-Year Plan. []

¹² The Soviet construction industry is notorious for letting huge inventories of unfinished buildings and uninstalled equipment accumulate. Since 1970, the level of unfinished construction has been reduced once—in 1980—and then only by 1 percent. []

Table 8 Percent
USSR: Growth in Gross Commissionings of New Capacity

1976-80	1981	1982	Preliminary 1983	Plan 1984
4.6 ^a	0.5	5.2	5.0	5.8 ^b

^a Average annual rate of growth.

^b This is the planned growth of commissionings from state capital investment only. State capital investment embraces roughly 90 percent of total capital investment.

The December 1983 party and government meetings, moreover, paid considerable attention to consumer issues. Andropov labeled as intolerable the amount of resources wasted by industrial enterprises producing shoddy and unmarketable consumer goods. Garbuzov criticized heavy industry, in general, and the machinery sectors, in particular, for producing too few consumer goods and for manufacturing inferior goods. []

Andropov did not, however, redirect resources to the consumer sector.¹³ Because he believed workers could be motivated by other means, Andropov downplayed the material aspects of consumption while stressing that wages must be closely linked to increases in labor productivity. Moreover, Baybakov left little doubt in his December speech that few additional resources will go to consumer programs in 1984. He indicated that consumption gains must rely on greater efficiency:

Production (of consumer goods) will be increased through the better utilization of production capacities . . . (and) the rational and economical use of all raw materials. []

¹³ One exception was Andropov's commitment to improving housing last year, which apparently went beyond mere lipservice. The 1983 Plan for housing construction was revised upward from 106.6 to 110.1 million square meters. Residential construction reached the higher target, one of the few times in the past 20 years that the housing goal has been met. It was the fourth straight year that rural housebuilding increased but the first time in several years that urban housebuilding rose. The 1984 Plan calls for construction of 109 million square meters of housing. []

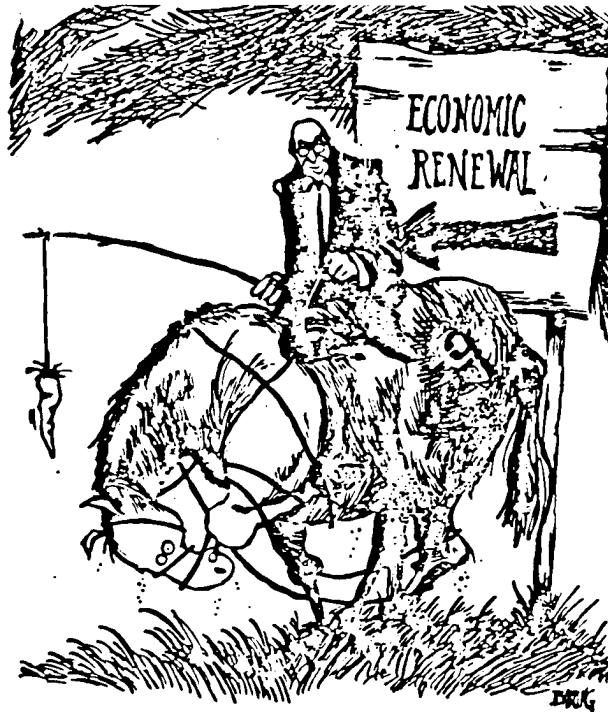
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Chernenko has spoken out in the past in favor of Brezhnev's Food Program and has tried to cultivate the image of a leader attuned to popular aspirations by calling for commissions to study public opinion, more intraparty democracy, and greater attention to letters from the rank and file. Still, any major push to raise living standards probably will have to wait until the 1986-90 Plan is set in motion. In the interim, improvements in the food situation in 1983, particularly with respect to meat, and the favorable outlook for further improvements this year may help raise the quality of Soviet diets and reduce the imbalance between purchasing power and the availability of consumer goods desired by the populace. [redacted]

Meanwhile, the stress on limiting wage growth¹⁴ and on selective price increases to help prevent accumulation of excess purchasing power will do little to stimulate greater worker effort. Raising incentives to work harder primarily requires a major restructuring of retail prices, bringing product mix into greater conformity with demand, and—above all—substantial increases in the supply of quality food, housing, and personal services. As Soviet experience shows, however, it is far more difficult to carry out these initiatives than to control the growth of household incomes.¹⁵ [redacted]

Defense. The official defense budget for 1984 is essentially the same as the ones published for the last three years. It is far lower than actual expenditures and incompatible with known Soviet force levels and military programs. Leadership commentary on the defense spending issue has been sparse, ambiguous, and sometimes contradictory. In its only reference, Andropov's December Plenum speech stated that "everything necessary has been envisaged to maintain the country's defense capacity at a proper level." In a recent speech, Chernenko said, "let no one have even the slightest doubt that we will see to it that our country's defense capacity will be strengthened." [redacted]

¹⁴ Calculated as a weighted average of pay for wage and salary workers and collective farmers, wages grew 3.4 percent in 1982, 2.9 percent in 1983, and are planned to increase by 2.0 percent in 1984. [redacted]



Reform—No New Programs

Because a year has passed since the Andropov regime had assumed power, it seemed likely that some bold, new economic initiatives would be unveiled at the Party Plenum last December. Andropov had, for example, appointed a high-level committee under the leadership of Central Committee Secretary Ryzhkov to review the party's options for changing the economic system shortly after assuming power in November 1982. Moreover, an interdepartmental council chaired by Baybakov since 1981 had been evaluating economic reform measures adopted in Eastern Europe. [redacted]

The General Secretary's report, however, was singularly devoid of any fresh, new programs. Instead, only programs that had already been talked about were mentioned. First, the "economic experiment" involving five industrial ministries, which began this January, was emphasized. In the experiment, enterprises are to be given more latitude in using investment and

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wage funds, largely to spur technological change and innovation. The planning system is also to be simplified by reducing the number of success indicators—contract fulfillment is to be the primary indicator—and the role of production associations and enterprises in drafting plans is to be increased. Finally, worker and management bonuses are to be tied more closely to enterprise performance.¹⁶ Second, the concept of small labor brigades in industry, construction, and agriculture as an effective way to increase local initiative in the decisionmaking process and to raise productivity by encouraging worker self-interest was also endorsed. A worker's pay under the brigade system is tied both to the output of the brigade as a whole and to his individual contribution to that output. []

Much of what has been included in these programs, however, has been tried before with limited success. Granting enterprises more control over investment funds, for instance, was tried under Premier Nikolay Kosygin's reforms during 1965-71. Unfortunately, the planning of investment supplies was not decentralized at the same time. As a result, would-be investors were unable to obtain the necessary physical resources needed to implement their plans. Nothing in this latest "experiment" addresses this problem. Contract fulfillment as a success criterion is also not new. It was first adopted as a secondary success indicator in July 1974 and reemphasized in the July 1979 reforms. []

The implementation of these "new" programs, moreover, has not been going smoothly. At the weekly Politburo meeting on 8 December 1983, the heads of two of the ministries slated to participate in the experiment were sharply criticized for "serious omissions" in their preparations. The published account of the Politburo meeting contained the sharpest and most detailed criticism of government organizations that has appeared since the reports began a year ago. A November article in *Pravda* criticized the State Committee for Material and Technical Supply

¹⁶ In early February, on the eve of Andropov's death, a similar experiment giving greater operational independence to personal services establishments in a few areas of the RSFSR was announced. In addition, a recent editorial in *Pravda* indicated that the experiment would be expanded to the railways in some regions of the country. []

(Gossnab) for discriminating against enterprises involved in the experiment. Andropov, himself, was highly critical of perverse "loopholes" that allow the payment of bonuses even when contractual obligations are not fully met. Enterprises can collect bonuses as long as contract fulfillment reaches 97 percent. []

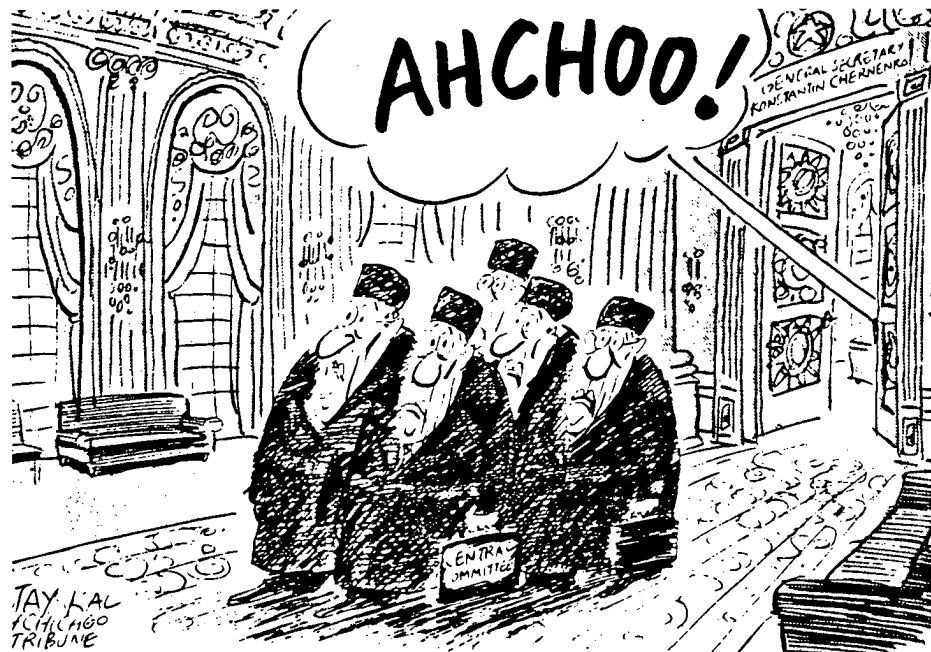
When all is said and done, however, Moscow will almost certainly declare the experiment a success. Moreover, the industries involved are clearly in the spotlight and will be given priority treatment—such as in the acquisition of raw materials, equipment, and rail services. Consequently, the results will tell little about the real potential for applying the new measures throughout the economy. []

Moscow is having no better success with the labor brigade program. Despite claims that 60 percent of all workers in industry and 28 percent of agricultural land in the RSFSR is under the collective contract system, the Soviets have publicly admitted that many of these brigades exist only on paper. Two party-government decrees issued in December acknowledge that, in many industries, worker brigades are "mere formalities" and have not actually been integrated into enterprise operations. Only half of the brigades are operating under contracts, and wages continue to be based on an individual basis, ignoring the link with brigade performance. A key reason appears to be opposition by ministerial and working-level managers, who see the contractual arrangements of the brigade system as diluting their authority over workers. []

Andropov undoubtedly faced both economic and political obstacles—such as a conservative ideology and an entrenched bureaucracy—in his efforts to introduce change. Such obstacles would hamper any Soviet regime; they will undoubtedly restrict Chernenko's options. Other factors may help explain why Andropov did not introduce a more dynamic program:

- The improved performance of the economy in 1982 and 1983—notably the rise in the growth of industrial production—may have increased Moscow's confidence that actions already taken had been sufficient to ensure more rapid growth in the years ahead.

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- Andropov may have been mustering his resources for the 1986-90 planning period. The Andropov plenum speech, for instance, noted that, "we should enter the 12th Five-Year Plan period with a well-adjusted economic machine allowing for an even fuller use of the potentialities of our economy."
- Andropov may have slowed his program in exchange for the appointment of "his team" to key party and government posts.
- Failing health also may have prevented Andropov from pushing more vigorously for change. [redacted]

For the moment, the watchword under the Chernenko leadership is continuity. It is difficult to know what approach to the economy the new General Secretary might take in the longer run, particularly since his past statements do not suggest a clearly defined or comprehensive economic philosophy or strategy. He has advocated regional administration of specific economic programs, supporting the RAPOs to implement the Food Program.¹⁷ He apparently prefers regional to

¹⁷ RAPOs (Rayon Agro-Industrial Associations) are self-financing associations that include all farms, agricultural service agencies, and processing enterprises in a given district. These organizations cut across ministerial lines and concentrate authority at the local level. [redacted]

ministerial organization. In 1982 he attacked the autonomy of the ministries, which he said "eats away like rust at the economic mechanism." However, nothing in his background or past pronouncements indicates an inclination toward bold systemic change that would significantly reduce centralized planning or management. [redacted]

The first major Central Committee resolution published by the new regime suggests hostility toward challenges to basic elements of the economic system. The resolution chastizes the Institute of Economics of the Academy of Sciences for superficial and misguided research and analysis. It urges the institute to undertake work with more practical application. The attack on the Institute appears to be a veiled, high-level warning to academic economists generally to cease openly proposing radical and sweeping changes.¹⁸ The resolution could signal an end to the

¹⁸ One proposal put forth in the open press calls for a larger role for private enterprise, specifically small family businesses run by individuals in their free time to provide such services as housing maintenance and repair, and to operate small stores and cafes. Other changes advocated in various forums include greater flexibility and more reliance on price incentives, increased support for private agricultural plots, and greater innovativeness in banking and monetary policies. [redacted]

candid, far-ranging public discussion of economic issues encouraged by Andropov, at least in his early months as General Secretary. [redacted]

Outlook

Although fulfillment of the 1984 Plan depends largely on gains in labor productivity that are out of line with the increases the Soviets have been able to achieve in recent years, Moscow could sustain last year's GNP growth in 1984. Several factors could combine to maintain, or elevate, growth in 1984: better weather; stimulation of still greater worker effort; opportunities for greater efficiency that can be capitalized on without systemic change (as in transport); and continued sizable additions to capital. [redacted]

In his early remarks as party General Secretary, Chernenko affirmed the need to maintain labor discipline. He also is continuing the crackdown on corruption.¹⁹ Chernenko has publicly asserted that high officials would not be exempt from the anticorruption campaign. However—despite these words and actions—he is likely to be more protective of regional first secretaries and government ministers, on whom he heavily depends for political support. [redacted]

Even if Chernenko matches Andropov's zeal with regard to discipline and corruption, reliance on increases in discipline is not a long-term solution to Moscow's economic problems. Without more stringent application, the impact of the discipline campaign will weaken. There are, in fact, indications that the intensity of the campaign has begun to wind down. For example, the police crackdown on people who, contrary to law, offer merchandise for private sale has abated as has the police campaign to check on people absent from work. [redacted]

Continuation of the anticorruption campaign could be more costly than beneficial. The crackdown on illegal activity in the so-called second economy could eliminate a substantial volume of goods and services not provided by the regular economy. [redacted]

¹⁹ TASS announced in March, for instance, that a deputy minister of Tractor and Agricultural Machine Building had been expelled from the party for abuse of office and that criminal proceedings would be brought against him and his accomplices. [redacted]

In the longer run, these factors—which either move erratically (such as the weather) or will lose force eventually (such as the discipline campaign)—are likely to bow before the deeper problems—including declining increments to the working-age population, the rising costs of extracting, processing, and transporting raw materials, and transportation bottlenecks—that have constrained growth since the mid-1970s. These problems remain; some, such as the slowdown in the growth of the labor force, in fact, are just now reaching peak severity.²⁰ [redacted]

Political Implications

The improved economic performance in 1983 must have been welcome news to Chernenko. He has come to power at a particularly difficult time, as had his predecessor; economic growth rates have been sluggish for several years, increases in per capita consumption have fallen, and the competition for resources between military and civilian needs has become intense. Externally, the Soviet Union is providing costly support for the stagnating economies of Eastern Europe as well as other client states and is bogged down in a long and costly war in Afghanistan. [redacted]

The bigger increment to GNP achieved in 1983, particularly if it can be repeated or improved upon this year, will provide Chernenko with some room to maneuver in consolidating his power base, and will make it easier for the new leadership to avoid radical changes in either resource allocations or institutional reform. At least for the present, Chernenko may be able to appease both the marshals and the consumers. [redacted]

Internationally, the better performance could take a little of the heat off the Soviets—albeit temporarily—in their economic relations with Eastern Europe and [redacted]

Third World countries. Moscow may be walking a fine line in its attempt to cut costs in Eastern Europe without precipitating new crises in the Bloc. As living standards stagnate or decline in Eastern Europe, anti-Russian sentiment is likely to increase among the peoples of the region who may then look to the West for support for their national aspirations. Similarly, unless the Soviets are more forthcoming with aid to Third World countries, as these countries' needs for development assistance mount, their leaders are likely to grow more dissatisfied with the USSR and be more tempted to turn to the West. [REDACTED]

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Finally, the better performance last year, coupled with a belief that the more upbeat trend will continue, could increase Soviet intransigence on arms control issues. Although Soviet decisions in arms control are primarily driven by calculations of political-strategic advantage and the dynamism of weapons technology, economic factors also influence Moscow's interest in stabilizing high-technology competition with the United States. [REDACTED]

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